



April 12, 2006

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JOYCE CROSTHWAITE
Executive Officer

TO: Local Agency Formation Commission

FROM: Executive Officer
Project Manager

SUBJECT: Proposed "Irvine Ranch Water District and Santiago County Water District Reorganization" (RO 06-04)

In January, 2006, the Boards of Directors for the Irvine Ranch Water District and Santiago County Water District adopted substantially similar resolutions requesting that LAFCO consolidate the two districts pursuant to California Government Code Section 56853(a) and designate the Irvine Ranch Water District as the single successor agency.

BACKGROUND

The application submitted by the Irvine Ranch Water District (IRWD) and the Santiago County Water District (SCWD) represents a collaborative effort that evolved in part from stakeholder discussions during the Orange/Villa Park MSR in 2003. The MSR stakeholder group included both IRWD and SCWD, the Cities of Orange and Villa Park as well as representatives from other public agencies and unincorporated communities in the surrounding area.

The Commission will recall that the Orange/Villa Park MSR was, by request of the City of Orange, one of the prototype MSRs. The City was preparing to address future growth and service delivery issues attributed in part to the Irvine Company's desire to develop its East Orange planned communities in the eastern portion of the city's sphere. When the MSR began, one annexation proposal was pending before the Commission and another was initiated a year later.

A plan for future service delivery to the proposed development areas was also a key issue for LAFCO as staff prepared the annexation proposals for the Commission's consideration. A portion of the proposed development area was split between the IRWD and SCWD water district service territories and both districts had expressed interest in serving it. The City of Orange had stated its preference that the eastern development areas be

served by a single provider for water and sewer. To address these issues, a study was conducted concurrent with the MSR to assess the most efficient and cost effective water and sewer provider for the proposed East Orange development areas. The East Orange Utility Study analyzed master plans for both IRWD and SCWD and concluded that the IRWD would be the most efficient and cost effective provider for water and sewer service to the future development areas.

Based on the utility study's conclusions, SCWD began its own process to assess future service delivery and governance options. The process included forming a President's Advisory Committee consisting of district residents to provide input to the Board during that process. All options studied by the SCWD Board/advisory committee assumed a large portion of the district would be detached and annexed to IRWD as the designated water and sewer provider for the future East Orange development areas. Options considered included:

- SCWD remain a stand-alone district serving existing customers
- Consolidate with Irvine Ranch Water District
- Consolidate with Trabuco Canyon Water District

SCWD customers identified consolidation with IRWD as the most beneficial option to pursue. Consequently, the subject consolidation was negotiated. The application includes a *Justification and Plan for Service* (Attachment A), which provides significant detail concerning the current operation of these districts and the benefits of consolidation. Below is a brief summary of the *Justification*.

OVERVIEW of EXISTING DISTRICTS

Irvine Ranch Water District

Formed in 1961 under the California Water District Act, IRWD currently provides water, sewer and reclaimed water service to an 85,019-acre service territory that includes the City of Irvine and portions of the Cities of Lake Forest, Orange, Costa Mesa, Newport Beach, and Tustin, as well as several unincorporated areas. The District serves an approximate population of 316,000 residents. IRWD imports approximately 35% of its water supply and draws the remaining supply (65%) from its extensive well system to serve an approximate population of 316,000. The District maintains about 600 miles of sewer pipeline and treats over 23 million gallons of sewage per day between its Michelson and Los Alisos treatment plants. (See Exhibit 1, IRWD Location Map.)

Santiago County Water District

Formed in 1963 under the County Water District Law, the District service territory includes approximately 29,450 acres, 13,500 of which is land owned by the Irvine Company and slated for development. SCWD maintains approximately 740 retail

water connections serving a population of approximately 2,500 customers located in the Modjeska, Silverado, Williams, Baker and Ladd canyon areas of unincorporated northeast Orange County. SCWD both imports water (65%) and draws from surface water (35%). The district's current population is 100% septic system users. (See Exhibit 2, SCWD Location Map.)

DISCUSSION

For proceedings where two special districts have proposed a change of organization pursuant to Government Code Section 56853 (a), the role of the Commission is to approve or conditionally approve the proposal and order the consolidation without election. In support of the proposal, the Districts are required to submit a petition that includes a designated successor agency and a plan for services for the newly consolidated district. As mentioned, a copy of the *Justification and Plan for Service* is attached to this report as Attachment A. Also included for the Commission's review, are the resolutions adopted by the two districts and the Consolidation Agreement dictating the terms and conditions approved by both district Boards. (See Attachment B.)

Collaborative Effort

The subject proposal represents a collaborative effort between the two districts. The process leading up to the presentation of the application to LAFCO included multiple discussion sessions between staffs of the districts and an Ad Hoc Committee comprised of members of the respective districts Boards of Directors. Improved service and cost benefits for the rate payers of the SCWD and more efficient water, sewer and reclaimed water service for the consolidated district overall spurred the effort that culminated in a total consolidation of the two districts.

Consolidated IRWD

The current five-member IRWD Board of Directors will govern the successor agency. As permitted under the California Water District Act, the current five-member SCWD Board of Directors will become a management committee of the consolidated district. This management committee will serve for three-years to aid in the transition and integration of the former SCWD service territory. After three years, the committee may recommend a community liaison to continue working with the IRWD Board. (See Exhibit 4, consolidated IRWD map.) Some of the benefits of consolidation identified by IRWD and SCWD include:

- Reduced operating costs and customer rates for water access and delivery
- More diverse and reliable water supply to SCWD customers
- Improved economies of scale and reduced administrative costs
- Enhanced emergency preparedness
- Revenue and cost neutrality to existing IRWD customers

There are no anticipated staff reductions as a result of the consolidation. There are four full-time and one part-time SCWD employees who will be integrated into the consolidated IRWD at IRWD's current compensation/benefit levels.

Existing SCWD ratepayers will realize an immediate 20% reduction in water rates due to the reduced costs to supply water to the area. Additional rate reductions of up to 60% of current SCWD rates are anticipated for the SCWD territory ratepayers following an approximate five to seven year transition period while costs to upgrade the SCWD area are repaid.

Equitable Distribution of Consolidation Costs

The terms and conditions of the consolidation include an acquisition balance model that allows the existing SCWD ratepayers to gain an immediate 20% reduction in water rates that will carry forward until the acquisition balance is retired. Existing IRWD customers will not be burdened with the cost impacts with application of this model. Once the acquisition balance is retired, ratepayers will assimilate into the standard IRWD rate schedule, seeing an approximate 60% reduction in rates as compared to former SCWD water rates.

Support Canyon Communities

From the beginning of discussions, the consolidation planning effort recognized the importance SCWD ratepayers place on preserving the existing land use and rural lifestyle in the canyon areas. Terms of the agreement specify that the consolidated IRWD will support local land use decisions including the Silverado-Modjeska Specific Plan as applicable in the former SCWD service area.

Form Improvement Districts/Planning Area

The consolidation agreement provides for the transition of SCWD Improvement District No. 1 (SCWD ID-1) into two new improvement districts under the consolidated IRWD. In December 2005, a 105-acre portion of SCWD ID-1 was detached and new Improvement Districts, ID153 and 253 were formed as a condition of the East Orange Planning Area 1 Reorganization.

As a condition of this consolidation, the new improvement districts, IRWD ID 153 (water)/253 (sewer) will be established to include the entire SCWD ID-1, excluding the existing residential areas. The improvement district will be formed to provide for the cost of financing new infrastructure and facilities for the proposed East Lake Village portion of the Irvine Company's East Orange development plan. The agreement also establishes Planning Area 155 that includes the existing canyon area residents, in order to pay-down the acquisition balance and rate differential. SCWD ID-2, which was

established to serve the Silverado-Specific Plan area, will become IRWD ID No. 154. (See Exhibits 3a & 3b for pre and post-consolidation ID maps.)

Orange County Sanitation District

Staff is recommending the Commission approve an amendment to the Orange County Sanitation District sphere of influence as a concurrent action to this consolidation. The proposed sphere amendment would include the entire SCWD ID-1 (less excluded areas). (See Exhibit 5.) The amendment is recommended in anticipation of the District's request to annex the balance of SCWD ID 1 (IRWD ID 253) to accommodate the sewage flow demands of the future development per the OCSD/IRWD sewage flow agreement. The flow agreement allows for wastewater from the area to be treated using IRWD's capacity in OCSD's facilities. An annexation application is currently being prepared; staff anticipates bringing it to the Commission for consideration in May, 2006.

Staff Conclusions

The proposed terms and conditions submitted by IRWD and SCWD as part of the Consolidation Agreement conform to the intent of Government Code Sections 56700 and 56853. The Districts propose a consolidation that will benefit the ratepayers of both districts through better service provision and, in some cases, an immediate rate reduction. No modification of the language is recommended.

ENVIRONMENTAL REVIEW

IRWD as the lead agency found the project categorically exempt from the California Environmental Quality Act (CEQA) as a project consisting of changes in organization of local agencies not changing the area in which existing powers are exercised, under the CEQA Code of Regulations, Title 14, Article 19, Section 15320 (b). (See Attachment C.)

PROPERTY TAX

Pursuant to Revenue and Taxation Code Section 99(b)(5), the Orange County Board of Supervisors on behalf of the two districts adopted a property tax exchange resolution on March 28, 2006. The terms of the exchange are that IRWD and SCWD have agreed that upon consolidation any property tax revenues that formerly have been allocated to the SCWD shall, in the future, be transferred and allocated to the IRWD.

RECOMMENDED ACTIONS

It is recommended for the Commission to take the following actions:

1. Certify that it has reviewed and considered the information contained in the Notice of Exemption prepared by the applicants (Attachment C).
2. Pursuant to Government Code §56853, adopt the resolution (Attachment F) approving the Consolidation of the Irvine Ranch Water District and Santiago

County Water District and designating the consolidated IRWD as the successor agency per the Statement of Boundary (Attachment G) and authorize the Executive Officer to conduct protest proceedings pursuant to Government Code §57081. The approval is subject to the following terms and conditions:

- a) The applicant agrees to pay for all County Recorder and State Board of Equalization fees.
 - b) The applicant agrees to defend, hold harmless and indemnify LAFCO and/or its agents, officers and employees from any claim, action or proceeding against LAFCO and/or its agents, officers and employees to attack, set aside, void or annul the approval of LAFCO concerning this proposal or any action relating to or arising out of such approval.
 - c) The provisions of the "Consolidation Agreement" entered into by and between the Irvine Ranch Water District and Santiago County Water District on January 17, 2006. (Attachment B.)
3. Amend the sphere of influence for the Irvine Ranch Water District to include the service territory of the Santiago County Water District as the consolidated district sphere of influence and adopt the Statements of Determinations. (Attachment D.)
 4. Amend the sphere of influence for the Orange County Sanitation District to include the entire SCWD ID No. 1 (IRWD ID No. 253) (less excluded areas) and adopt the Statements of Determinations. (Attachment E.)
 5. Set a 21-day protest period for the reorganization.
 6. The effective date of the consolidation shall be July 1, 2006.

Respectfully submitted,

JOYCE CROSTHWAITE

KIM KOEPPEN

Attachments:

- A. Justification of Proposed Consolidation and Plan for Services
- B. Consolidation Agreement & Initiating Resolutions

- C. Notice of Exemption
- D. Statement of Determinations for the consolidated IRWD District SOI
- E. Statement of Determinations for the amended OCSD SOI
- F. LAFCO Draft Resolution
- G. Statement of Boundary

Exhibits:

- 1. IRWD location map
- 2. SCWD location map
- 3. Improvement District maps
 - a. Pre-consolidation IDs map
 - b. Post-consolidation IDs map
- 4. Consolidated IRWD map
- 5. Proposed OCSD sphere map

SCWD-IRWD Consolidation

Additional Project Application Information Justification and Plan of Service

Background

The application submitted by the Irvine Ranch Water District (IRWD) and the Santiago County Water District (SCWD) proposes to reorganize the two districts into one consolidated district, IRWD. The proposed change of organization is in great measure attributable to the future development in East Orange that was recently approved by the City of Orange. The question of how water and sewer service, and the infrastructure needed to support it, could be provided most reliably and cost-effectively has ultimately lead to this consolidation proposal.

The East Orange Municipal Service Review (MSR), initiated by Orange County LAFCO in early 2005 as one of two prototype MSRs, was intended in large part to solicit input and ultimately provide guidance as to how the future East Orange development might best proceed and how the demands of that development might best be met. The East Orange MSR process involved representatives from the County of Orange, the City of Orange, IRWD, and SCWD as well as other government entities, volunteer groups, and members of the public, who together formed the MSR Working Group. Over approximately one year, the Working Group provided critical input to the completion of the East Orange MSR through ten half day sessions lead by LAFCO staff and facilitated by an outside consultant.

Among the more important issues taken up by the Working Group was the provision of water and sewer service to the proposed development of approximately 2,500 new homes in what is known as the East Lake Village Area. This specifically identified key issue was addressed within the overall MSR process through the preparation of the East Orange Utility Study. The Utility Study was completed by an independent engineering firm and its fundamental purpose was to identify the best provider of water and sewer service to meet the demands of the proposed development. The Utility Study was completed and received by LAFCO staff and its findings were included in the final East Orange MSR Report.

For a number of significant reasons, the Utility Study identified IRWD as the best agency to provide water and sewer service in the East Lake Village Area. This recommendation was acted upon in both the East Orange MSR and in LAFCO staff's proposed sphere of influence updates. The practical outcome of the MSR process and the SOI updates was to detach the development area in East Orange from SCWD and attach it to IRWD so that future water and sewer demands would be provided by IRWD.

In consequence to IRWD's designation as the future water and sewer service provider in East Orange, SCWD initiated a process to evaluate their future options as a district. SCWD's Board of Directors formed a special subcommittee to take up this issue and convened a President's Advisory Board consisting of approximately forty SCWD customers.

As this evaluation proceeded, SCWD and the President's Advisory Board identified three alternatives for a future SCWD: to remain as a stand-alone district, to consolidate with Trabuco Canyon Water District, and to consolidate with IRWD. Each of these options were evaluated and compared according to criteria established by the President's Board. Cost of operations, reliability, and local control were determined to be the three most important criteria identified by the members of the President's Advisory Board.

The President's Board held three public evening forums to solicit input from and provide information to SCWD rate payers. In the last of these public forums, presentations were made by LAFCO staff, SCWD staff, and IRWD. An extensive question and answer period followed the presentations. The President's Board then requested feedback as to which option should be pursued. By an overwhelming margin, consolidation with IRWD was selected as the most sensible course for SCWD to follow. The SCWD Board then directed the subcommittee to complete negotiations with IRWD that would establish the terms and conditions through which an IRWD/SCWD consolidation might occur.

The Consolidation Agreement (Attached) was carefully negotiated and ultimately executed by both SCWD and IRWD. It defines the terms and conditions through which the two districts are to be consolidated, and incorporates aspects of previous successful consolidations involving IRWD. There are six key elements established in the Agreement that are the cornerstones of the consolidation: (1) recognition of equity; (2) rates and charges; (3) governance; (4) integration of workforce; (5) systems integration and level of service; and, (6) community issues and involvement. These issues are described more fully in the Plan of Service section of this application.

Justification for the Proposed Action

Consolidation of IRWD and SCWD will reduce operating costs and allow for a significant reduction in current SCWD rates and charges without negative impact to current IRWD customers. It will also provide a more diverse and reliable water supply to the SCWD service area, greater operational flexibility and reliability, and enhanced emergency preparedness. Participation by SCWD's current Board in a post-consolidation Management Advisory Committee will work to ensure a smooth transition and continue local control.

A Consolidation Agreement was signed and executed by the IRWD Board of Directors and the SCWD Board of Directors respectively, which established the terms and conditions for the consolidation of the two agencies. The Consolidation Agreement stipulates the disposition of facilities and funds, the establishment of rates and charges, the transition of a governance structure, the impact on affected personnel and the transition of other operational policies and procedures.

As a condition of the Consolidation Agreement, the IRWD and the SCWD are to process an application through the Local Agency Formation Commission ("LAFCO"), to consolidate the former SCWD territory within the IRWD's service boundaries. All the above procedural steps adhere to the applicable government code sections.

The IRWD and SCWD Boards of Directors believe this proposal will produce efficiencies in service delivery and would be in the best interest of the inhabitants and ratepayers of each District.

The objective is that this consolidation be accomplished in a manner that will maximize economic and operational efficiencies to the extent possible while maintaining equity to the ratepayers and property owners of each District and avoiding involuntary elimination of staff positions.

In anticipation of new development in the East Orange area SCWD established its Improvement District #1. As part of the Consolidation this Improvement District will be renamed and become part of IRWD's recently established ID 153 and ID 253; ID 153 is intended to be the water improvement district and ID 253 the sewer improvement district. Because this area will one day require sewer service, and because IRWD provides sewer service using both its own Michelson Water Reclamation Plant and its capacity in the regional treatment facilities of the Orange County Sanitation District, an application will be submitted to LAFCO under separate cover requesting annexation to Orange County Sanitation District of which IRWD is a member agency as Revenue Area 14.

Profile of Irvine Ranch Water District

IRWD was formed in 1961 as a special district under the California Water District Act and covers more than 133 square miles. IRWD serves a population of 316,000 in the City of Irvine: portions of the cities of Lake Forest, Newport Beach, Costa Mesa, Orange, Santa Ana and Tustin; and parts of unincorporated Orange County. As a special district, IRWD provides potable water, sewage collection and treatment, and production of tertiary-treated water with the goals of providing the maximum efficiency and local responsiveness to its customers. In 2002-2003, IRWD delivered approximately 52,926 acre-feet of treated water, 9,213 acre-feet of untreated water and 23,383 acre-feet of recycled water. The District uses a total of 85,522 acre-feet of water annually.

In the past decade, IRWD has successfully consolidated with the Santa Ana Heights Mutual Water Company, the Carpenter Irrigation District, and the Los Alisos Water District. Each of these consolidations was initiated by the districts to be consolidated, and each has proven highly successful. The proposed consolidation of SCWD and IRWD will benefit from these prior consolidations by utilizing concepts and strategies that have worked effectively to provide and maintain equity, reduce rates, and improve service operations.

Profile of Santiago County Water District

SCWD was established in 1962 and is located in northeast Orange County, east of the cities of Orange and Tustin. SCWD cover an area of 29,450 acres with land ranging from foothills around Irvine Lake to mountainous canyons in the Cleveland National Forest. Presently, SCWD's single mission is to provide potable water to its customers.

SCWD has a current population of approximately 2,500 persons. The majority of the District's population is concentrated in Silverado, Williams, and Modjeska Canyons. Currently, SCWD has 740 domestic water connections delivering up to 500 acre-feet of water annually.

Within SCWD there are two Improvement Districts (ID-1 and ID-2) that were formed in 1978 for the purpose of authorizing general obligation bonds.

Plan for Providing Services

The attached Consolidation Agreement provides a detailed explanation of how the consolidation will occur. In summary, the Consolidation includes six key components that will ensure a fair, efficient and cost effective transfer of SCWD's responsibilities and liabilities to the Consolidated District. They are:

1. **Recognition of Equity**

The Districts have developed two distinct mechanisms to transition the agencies into financial parity. The Agreement acknowledges each agency's assets and investments and uses an improvement district concept for future new development and an "Acquisition Balance" concept to resolve equity gaps between existing customers of the two agencies.

As discussed above, the proposed future development area currently within SCWD and known as Improvement District #1 will be annexed to IRWD's Improvement Districts 153 and 253 (presently comprised of the 105 acre portion of ID No. 1's territory that was previously reorganized into IRWD) at the effective date of consolidation; ID 153 is intended to be the water improvement district and ID 253 the sewer improvement district. This structure not only mirrors the development approach IRWD has

successfully used for thirty years within its current service area, it also insulates the existing canyon area customers from bearing the burden of future development costs from which they will receive no benefit. The existing general obligation debt authority approved in SCWD's ID #1 will be allocated to IRWD's ID 153/253 and any debt issued for the construction of water and sewer facilities within those improvement districts will be funded through an approximate 50/50 sharing between the developer (through connection fees) and the future homeowner (through property taxes).

The Acquisition Balance concept allows existing SCWD ratepayers to buy into existing IRWD water infrastructure in order that they can participate in IRWD's water rate structure. The Acquisition Balance accumulates buy-in costs, subtracts out credits SCWD brings to the consolidation, and produces a net buy-in amount. That amount is then drawn down by the difference in revenues between the reduced SCWD rates and the standard IRWD rates. It is estimated that the Acquisition Balance will be retired in approximately five to seven years.

2. Resulting Rates and Charges

During the funding of the Acquisition Balance period, in fact from day one of the consolidation, SCWD rates for existing customers will be reduced by 20% and full services will be received immediately. After the Acquisition Balance is funded and parity is achieved, SCWD rates will be equal to IRWD's which will be approximately 60% lower than SCWD's pre-consolidation rates. This results in a projected 25 years savings of \$7.6 million in today's dollars.

The rate structure for the future development area (ID 123/253) will be established based on IRWD's current rates for water and sewer service in the greater IRWD service area. Property taxes paid by future homeowners in ID 153/253 provide the same equity contribution to capital infrastructure as does the Acquisition Balance for current SCWD ratepayers, therefore ID 153/253 does not have an Acquisition Balance nor does that area participate in funding the Acquisition Balance established for the existing SCWD customers.

3. Governance and Local Representation

The Agreement provides for a Management Advisory Committee to be formed from the current SCWD Board of Directors. The Management Advisory Committee will remain as a subcommittee of the consolidated district's Board of Directors for three years. The Committee would meet monthly to address issues pertaining to the former SCWD area and will make recommendations to consolidated district Board. After three years the Committee may recommend a community liaison to continue to work with the IRWD Board.

4. Integration of Workforce

There will be no staff reductions as a result of the consolidation. All SCWD employees will be integrated into the IRWD workforce and into IRWD's current salary and benefits packages.

5. System Integration and Levels of Service

SCWD customers will be fully integrated into IRWD and receive all services and operation benefits as received by customers throughout IRWD. They will have access to additional water supply reliability and redundancy, rapid and substantial emergency response capabilities, extensive equipment and materials diverse, multi-disciplined staff with depth of experience preventative maintenance programs and enhanced customer services.

6. Community Issues and Involvement

IRWD recognizes the community issues that are important to the SCWD residents. IRWD is not a land planning agency and supports the Silverado-Modjeska Specific Plan which has been approved and adopted by the responsible land planning agencies. IRWD also supports the continued use of septic systems insofar as they remain approved by the responsible regulatory agencies.

Upon consolidation, the consolidated district will continue to operate the existing SCWD headquarters site. It will remain open for a minimum of one year and be available for use for non-profit community meetings at no cost.

IRWD has a history of demonstrating its commitment to the environment through partnership with environmental groups, the promotion of water conservation programs and water reclamation and re-use. IRWD recognizes the unique character of the canyon area and looks forward to furthering its community involvement in the overall SCWD service area.

Terms and Conditions

The attached Consolidation Agreement includes all of the proposed terms and conditions for the Consolidation.

CONSOLIDATION AGREEMENT

THIS AGREEMENT is entered into this _____ day of _____, 2006, by and between SANTIAGO COUNTY WATER DISTRICT, a county water district formed and existing pursuant to Section 30000 *et seq.* of the California Water Code (“SCWD”) and IRVINE RANCH WATER DISTRICT, a California water district formed and existing pursuant to Section 34000 *et seq.* of the California Water Code (“IRWD”).

R E C I T A L S:

A. SCWD provides water service to the service area generally depicted on Exhibit “A,” which exhibit is attached hereto and incorporated herein by this reference.

B. IRWD provides water, sewer, reclaimed water and natural treatment system service to the service area generally depicted on Exhibit “B,” which exhibit is attached hereto and incorporated herein by this reference.

C. The Cortese-Knox-Hertzberg Local Government Reorganization Act, as amended effective January 1, 2005, permits consolidation of special districts not formed pursuant to the same principal act.

D. The respective governing boards of SCWD and IRWD have determined that a consolidation of SCWD and IRWD would produce efficiencies in service delivery and would be in the best interest of the inhabitants and ratepayers of each District.

E. It is the objective of the parties that consolidation of the Districts be accomplished in a manner that will maximize economic and operational efficiencies to the extent possible, while maintaining equity to the ratepayers and property owners of each District and avoiding involuntary elimination of staff positions.

F. It is the intent of the parties that the consolidated district will ultimately have a uniform rate structure. The former territories of IRWD and SCWD will be operated by the consolidated district for a transitional period as separate economic units to facilitate the satisfaction of equity considerations as described in this Agreement, with the objective that the transitional period be as short as possible.

G. The parties desire that the consolidation provide for a suitable governance structure, with adequate measures to assure continuity and transitional representation of the former SCWD service area.

H. SCWD and IRWD intend to submit substantially similar resolutions of application making proposals to the Local Agency Formation Commission of Orange County ("LAFCO") for a consolidation, in accordance with Government Code Section 56853.

I. SCWD and IRWD intend to request that July 1, 2006 be established as the effective date of the consolidation.

J. SCWD and IRWD desire to set forth the proposed terms and conditions of the consolidation intended to achieve the above-recited objectives.

A G R E E M E N T S:

Section 1. General. IRWD and SCWD shall make application to LAFCO for a consolidation of the two Districts, upon the terms and conditions constituting this Agreement. IRWD shall cause the preparation of a survey and legal description of the consolidated district meeting LAFCO's requirements and other applicable legal requirements. In accordance with Government Code Sections 56375(c), 56654(c) and 56700(b)(1), IRWD shall be designated as the consolidated successor district (the "Consolidated District"). The name of the Consolidated District shall be "Irvine Ranch Water District." The Consolidated District will be a California water district, and will operate under Water Code Section 34000 *et seq.*

Section 2. Funds and Facilities.

(a) IRWD Improvement Districts. The improvement districts of IRWD existing on the date of the consolidation shall become improvement districts of the Consolidated District.

(b) SCWD Improvement Districts. (1) The parties agree to request that LAFCO include in the terms and conditions of the consolidation such terms and conditions as are necessary to provide that all of the territory within Improvement District No. 1 of SCWD (as described in SCWD Resolution Nos. 78-5-2 and 78-5-6, each of which was adopted on May 2, 1978, inclusive of the territory included therein pursuant to SCWD Resolution No. 78-3-1, adopted on March 21, 1978), except for the area to be excluded therefrom as identified on Exhibit "D" referenced below in paragraph (c), shall be annexed to IRWD's Improvement District No. 153 and Improvement District No. 253, or in the alternative that Improvement District No. 153 and Improvement District No. 253 shall be formed as two separate and coterminous improvement districts of IRWD comprising the territory of SCWD's Improvement

District No. 1, except for the area to be excluded therefrom as identified on Exhibit "D". The parties further agree to request that LAFCO include terms and conditions necessary to provide that upon the consolidation, SCWD Improvement District No. 1's water bonds (authorized but unissued) shall become the bonds of the Consolidated District for Improvement District No. 153 (including the annexed territory and all territory within such improvement district prior to the consolidation), and SCWD Improvement District No. 1's sewer bonds (authorized but unissued) shall become the bonds of the Consolidated District for Improvement District No. 253 (including the annexed territory and all territory within such improvement district prior to the consolidation). The Plan of Works of SCWD Improvement District No. 1 shall be the Plan of Works of Improvement District Nos. 153 (with respect to water works) and 253 (with respect to sewer works).

(2) Improvement District No. 2 of SCWD (as described in SCWD Resolution No. 78-5-10, adopted on May 2, 1978), except for the area to be excluded therefrom as identified on Exhibit "D," shall be renamed "Improvement District No. 154" and shall become an improvement district of the Consolidated District upon the consolidation. Upon the consolidation, SCWD Improvement District No. 2's bonds (authorized but unissued) shall become the bonds of the Consolidated District for Improvement District No. 154. The Plan of Works of SCWD Improvement District No. 2 shall be the Plan of Works of Improvement District No. 154. Improvement District No. 154 shall be deemed to be an improvement district formed under California Water Code Section 36410 *et seq.*

(c) Designation of Planning Area. The portion of SCWD not included within Improvement District Nos. 153 and 253 pursuant to paragraph (b)(1) above shall be designated by the Consolidated District as a planning area to be known as "Planning Area No. 155." Planning Area 155 shall include the area within Improvement District No. 154. The existing Improvement District Nos. 1 and 2 of SCWD are shown on Exhibit "C," and Improvement District Nos. 153, 253 and 154 and Planning Area No. 155 of the Consolidated District shall be as shown on Exhibit "D," which exhibits are attached hereto and incorporated herein by this reference.

(d) Allocation of Facilities and Capacities. The facilities, capacities in facilities, and associated lands and rights-of-way constructed and acquired by SCWD with funds of Improvement District No. 1 or otherwise owned by SCWD for the benefit of Improvement District No.1 shall be allocated to Improvement District Nos. 153 and 253 upon the consolidation (with the allocation (water/sewer) between the two improvement districts to be determined by the Consolidated District). The facilities, capacities in facilities, and associated lands and rights-of-way constructed and acquired by SCWD with funds of Improvement District No. 2 or otherwise owned by SCWD for the benefit of Improvement District No. 2 shall be allocated to Improvement District No. 154 upon the consolidation. The remainder of the SCWD facilities, capacities, associated lands and rights-of-way, and the administrative facilities of SCWD shall be allocated to Planning Area No. 155. IRWD's facilities, capacities in facilities, and associated lands and rights-of-way and other property shall remain allocated among IRWD's existing improvement districts and planning areas existing prior to the consolidation. Future financial

participation by Improvement District Nos. 153, 253 and 154 and Planning Area No. 155 in the construction and acquisition of facilities and other property of the Consolidated District and the disposition of any existing facilities and property shall be at the discretion of the Consolidated District's board on the basis of benefit to be received, consistent with IRWD's capital funding policies and practices.

(e) Personal Property. Personal property, including vehicles, office furniture and equipment and documents, owned by SCWD and IRWD shall be the property of the Consolidated District and shall not be allocated to improvement districts. The Consolidated District may retain, sell or dispose of such property, at its discretion.

(f) Capital Funds. The Consolidated District shall establish capital funds for Improvement District Nos. 153, 253 and 154, to be funded, used and applied pursuant to policies established by the Consolidated District from time to time. Unrestricted funds (if any) held by SCWD Improvement District No. 1 at the date of consolidation shall be deposited to the Improvement District Nos. 153 and 253's capital funds as determined by the Consolidated District; unrestricted funds (if any) held by SCWD Improvement District No. 2 at the date of consolidation shall be deposited to the Improvement District No. 154 capital fund.

(g) Replacement Fund Buy-In. A portion of the connection or capacity charges imposed by the Consolidated District within Improvement District Nos. 153 and 253, to be determined from time to time consistent with the policies of the Consolidated District, shall be contributed to the water and sewer replacement funds of the Consolidated District. Planning Area 155 shall contribute to the water replacement fund of the Consolidated District pursuant to Section 3(i)(2) hereof.

(h) Other Funds. Subject to Section 3(j)(1), SCWD's remaining cash balances not otherwise allocated herein shall be combined with the operating funds of IRWD as the operating funds of the Consolidated District. The foregoing shall exclude any bond proceeds, debt service funds and other restricted funds of SCWD and IRWD, which shall remain restricted funds of the Consolidated District or improvement district or planning area, as applicable, and continue to be restricted to the previously designated purpose. Operations shall be consolidated through a combined operating budget. Segregation of operating funds shall not be required except as deemed necessary by the Consolidated District. An independent closing audit of IRWD's and SCWD's financial records shall be performed by the Consolidated District for each District's last fiscal year ended prior to the effective date of the consolidation.

(i) Contracts. Existing contracts of SCWD and IRWD shall be deemed transferred to and assumed by the Consolidated District upon the consolidation.

(j) Commingling. Funds or other assets or operational expenses may, at the discretion of the Consolidated District, be commingled for investment and operating purposes.

Section 3. Rates and Charges.

(a) General. Except as otherwise specifically provided herein, services shall be provided by the Consolidated District in accordance with IRWD's Rules and Regulations For Water, Sewer, Recycled Water, and Natural Treatment System Service ("Rules and Regulations"). The special provisions for rates and charges governed by this Agreement shall be considered a special contract under the Rules and Regulations.

(b) Commodity Charge Reduction. Upon consolidation, the water commodity charges within Planning Area No. 155 will be reduced to 80% of the respective SCWD water commodity charges (including any elevation charge component of such charges) for all classes of service and meter size that were in effect on the date of consolidation. Until the Acquisition Balance (defined below) equals zero, whenever the Consolidated District's standard commodity charge is changed, each commodity charge within Planning Area No. 155 will be changed by the amount necessary to maintain constant the dollar amounts of the differences (that resulted from the initial percentage reduction) between each such commodity charge and the Consolidated District's standard commodity charge. If the Metropolitan Water District of Southern California or any intermediate wholesaler modifies its rate structure in a way that causes an unintended effect in the foregoing method of indexing the commodity charges for Planning Area No. 155, the Consolidated District may modify such method of indexing in order to preserve the intent of this subparagraph to maintain constant the dollar amounts of the differences between each Planning Area No. 155 commodity charge and the Consolidated District's standard commodity charge.

(c) Service Charge Reduction. Upon consolidation, the water service charges within Planning Area No. 155 will be reduced to 80% of the SCWD water service charges that were in effect on the date of the consolidation. Until the Acquisition Balance equals zero, whenever the Consolidated District's standard water service charges are changed, the service charges within Planning Area No. 155 will be changed by the amount necessary to maintain constant the dollar amounts of the differences (that resulted from the initial percentage reduction) between such water service charges and the respective standard water service charges of the Consolidated District. All other water fees and charges for Planning Area No. 155 shall be the Consolidated District's standard fees and charges; provided, however, that the Consolidated District may, at its discretion, elect to retain an SCWD charge or establish a new charge if conversion to the Consolidated District's charges would produce an unintended or unwanted result.

(d) Application of Commodity Rate and Service Charge Differential. The difference between (1) water revenues actually collected by the Consolidated District within Planning Area No. 155 at the commodity rates and service charges in effect pursuant to subparagraphs (b) and (c) above and (2) water revenues that would have been collected using the Consolidated District's base commodity rates and service charges in effect at such time will be computed and applied by the Consolidated District after each billing period to reduce the remaining Acquisition Balance.

(e) Improvement District Nos. 153 and 253 User Rates. The commodity charge, service charge and all other charges within Improvement District Nos. 153 and 253 shall be the Consolidated District's allocation-based rate structure commodity rates and other standard rates and charges, including applicable elevation charges established in the same manner as in other portions of the Consolidated District.

(f) Connection and Capacity Charges; Acreage Assessments. Connection and capacity charges within Improvement District Nos. 153, 253, and 154 and Planning Area No. 155 shall be set by the Consolidated District based upon the respective sub-area master plans (SAMPs) to be prepared by the Consolidated District for such Improvement Districts and Planning Area. The water system capacity fees ("wscfs") established by SCWD within the territory comprising Planning Area No. 155, three and sixteen hundredths percent (3.16%) of which are promised to the repayment of that certain December 10, 2001 Promissory Note executed by SCWD, shall be continued in effect within Planning Area No. 155. The acreage assessments imposed and collected within SCWD shall be discontinued by the Consolidated District on the effective date of the consolidation.

(g) Rates After Retirement of Acquisition Balance. Subsequent to the reduction of the Acquisition Balance to zero, user rates within Planning Area No. 155 will be established in the same manner as in other portions of the Consolidated District; provided, that for purposes of setting elevation charges, Planning Area No. 155 shall constitute a single elevation zone, with a melded elevation charge to be determined for the entire zone.

(h) Allocation-Based Rate Structure in Planning Area No. 155. The water commodity rates imposed within Planning Area No. 155 shall be transitioned to the Consolidated District's allocation-based rate structure after an appropriate customer education and information period, but in no event prior to reduction of the Acquisition Balance to zero.

(i) Acquisition Balance. Planning Area No. 155 will make an equitable contribution toward the cost of the existing IRWD system and property, equal to the sum of following amounts (the "Acquisition Balance"):

- (1) Melded rate benefit provided by the Dyer Road Wellfield, agreed to be \$141,000;
- (2) Replacement fund contribution, agreed to be \$467,000;
- (3) Capital cost to fund existing system upgrades. This amount shall not exceed \$1,226,000, and shall be established by the Consolidated District, in consultation with the management advisory committee formed pursuant to Section 4(b), no later than one (1) year after consolidation, at the actual cost of correcting deficiencies known on that date and any deficiencies discovered by IRWD within said one (1) year period, not to exceed \$1,226,000;

- (4) SCWD buy-in to Santiago Canyon Road Pipeline, Allen McCulloch Turnout OC-68, and Santiago Hills Reservoir, agreed to be \$163,000;
- (5) The amount, if any, of the buy-in of the Consolidated District to the Public Employees Retirement System to cover SCWD's eligible employees at the participation and funding level of IRWD existing prior to the consolidation;
- (6) Planning Area No. 155's share of the costs of preparation of the survey and legal description of the Consolidated District, LAFCO fees, and legal fees expended to process the consolidation; such amounts shall be prorated on the effective date of the consolidation among between Planning Area No. 155 and Improvement District No. 153, based upon the actual number of residential connections in Planning Area No. 155 and the approved number of dwelling units in Improvement District No. 153; and
- (7) Outstanding debt of SCWD, excluding any debt of Improvement District No. 1, and also excluding the above-referenced December 10, 2001 Promissory Note executed by SCWD. .

(j) Acquisition Balance Reductions. The Acquisition Balance shall be reduced by the following amounts:

- (1) The actual cash balances in SCWD funds transferred and combined with the operating funds of the Consolidated District pursuant to Section 2(h) hereof after satisfaction of, or making provision for payment or discharge of, all liabilities of SCWD incurred prior to the consolidation (other than debt listed in (i)(7) above), estimated at \$2,330,000;
- (2) The appraised value of the SCWD administrative building and land, as encumbered by the existing water facilities, storage, corporate yard, and ancillary buildings and structures, less the cost of the appraisal; and
- (3) Value of Santiago Canyon Road Pump Station and Pipeline capacity to serve Improvement District No. 153 and Improvement District No. 150, agreed to be \$1,129,600.

(k) Improvement District No. 153 Share of Consolidation Costs.

Improvement District No. 153 shall pay its prorated share of the amount computed pursuant to (i)(6) above.

(l) New Development in Planning Area No. 155. It is acknowledged and agreed that the Acquisition Balance contributions listed in (i)(1), (2) and (3) have been determined based on existing connections within Planning Area No. 155. The contribution of future development that may occur within Planning Area No. 155 shall be determined based upon the applicable SAMP for such area and connection and capacity charges shall be set accordingly; provided, however, that nothing in this sentence shall affect the requirement to continue the collection of the wscfs pursuant to Section 3(f). Nothing herein shall be deemed to satisfy any contribution that may be required (in addition to payment of the rate differentials applied to the Acquisition Balance) from future development that may occur within Planning Area No. 155.

Section 4. Governance.

(a) Board of Directors. Upon consolidation, the Consolidated District shall be governed by the existing five-member board of IRWD. Elections, the size of the board and eligibility for service as a member of the board shall be as set forth in the statute governing the method of elections for IRWD.

(b) Management Advisory Committee. A management advisory committee shall be formed, consisting of up to five (5) of the SCWD board members in office immediately prior to the effective date of the consolidation, to initiate and/or review and make recommendations concerning all matters coming before the Consolidated District's board that pertain to the former SCWD service area, including but not limited to matters pertaining to the implementation of this Agreement. The term of the management advisory committee shall be three (3) years. The eligibility criteria for continued service as a member of the management advisory committee shall be the same as for the former SCWD board. Any vacancy on the committee as a result of loss of eligibility or other cause shall be filled by appointment by the Consolidated District's board of a person who is recommended by a majority of the remaining members of the committee and who meets such eligibility criteria. The committee shall sit as an advisory committee with one member of the Consolidated District board, and shall meet up to once per month. One of the tasks of the management advisory committee will be to develop and present to the Consolidated District board a recommended process for maintaining a liaison between the board and the residents of Planning Area No. 155 after the term of the committee. Such a process may include the appointment of a person to serve in a community liaison capacity.

(c) Compensation and Reimbursement. During their terms, the members of the management advisory committee shall receive per diem compensation and expense reimbursement for their services, on the same basis and subject to the same limitations as the Consolidated District's board members during their service. During their service, the Consolidated District will reimburse management advisory committee members for premiums

for insurance/benefits obtained by the management advisory committee members, up to an amount not to exceed the cost of such insurance/benefits provided by Consolidated District for its board members.

The Consolidated District shall assume the existing vested obligations of SCWD to provide lifetime health insurance coverage to former SCWD employees and former members of the SCWD board of directors.

Section 5. Personnel.

(a) Existing Employees. All employees of SCWD and IRWD as of the date of the consolidation shall become employees of the Consolidated District effective upon such date. The IRWD General Manager shall become the general manager of the Consolidated District effective upon such date. Changes in classifications and assignments of personnel may be made by the Consolidated District at its discretion for purposes of efficiency, training and elimination of duplication.

(b) Policies; Compensation. The personnel policies and position and salary grade schedules of IRWD shall be deemed adopted by the Consolidated District as of the effective date of the consolidation, as the same may be amended thereafter by the Consolidated District's board from time to time. IRWD and SCWD agree to develop and IRWD shall adopt, prior to the effective date of the consolidation, any modifications of such policies and schedules as may be necessary in order to prevent overall loss of or reduction in compensation or benefits of individual former SCWD employees. It is the intent of the parties to avoid significant loss of or reduction in benefits to the former SCWD employees to the extent feasible and to resolve any such impact on a case by case basis.

(c) Severance. In consultation with the management advisory committee, the Consolidated District shall formulate voluntary severance arrangements for employees of the former SCWD who may request separation from the Consolidated District within the initial twelve (12) months following the effective date of the consolidation.

Section 6. Operations.

(a) Evaluation of Needed Facilities. The Consolidated District will evaluate all administration and field facilities to assess continuing need and value.

(b) Condition and Maintenance. Facilities will be transferred to the Consolidated District on an "as-is" basis, subject to normal maintenance which shall continue to be performed up to the effective date of the consolidation.

(c) Permits. All permits issued to and by IRWD and SCWD will be transferred and assigned to the Consolidated District in full force and effect.

(d) SCWD Administrative Office. The SCWD Administrative Office will remain open during standard business hours for a minimum of one year.

(e) Emergency Response Program. It is the intent of the parties that the Consolidated District will take such steps as may be necessary to maintain SCWD's current emergency response programs and incorporate the former SCWD service area into the Consolidated District's participation in the WEROC program.

Section 7. Miscellaneous.

(a) Policies. The policies, controls and regulations of IRWD, set forth by resolution or otherwise, shall be deemed adopted by the Consolidated District as of the effective date of the consolidation, as the same may be amended thereafter by the Consolidated District's board from time to time. Except to the extent the Consolidated District board finds it necessary or desirable to retain policies, controls and regulations of SCWD in effect transitionally or permanently, they shall be deemed rescinded by the Consolidated District.

(b) Contracts; Joint Powers Agreements. The Consolidated District shall be the successor to all existing contractual rights and obligations of SCWD and IRWD, subject to the provisions of Section 2(d) hereof regarding allocation among improvement districts. The Consolidated District will coordinate any amendments or other actions which may be needed in joint powers and other agreements to which both IRWD and SCWD are parties.

(c) Sewer Service. The Consolidated District shall support the continued use of septic systems within Planning Area No. 155. However, in the event the extension of municipal sewer service into Planning Area No. 155 becomes mandated by a legally authorized regulatory agency or sewer service is specifically requested to be extended to property(ies) of customer(s) in Planning Area No. 155, the Consolidated District will use its best efforts to facilitate and assist in the implementation of a mechanism to finance the cost of the sewer extensions and associated treatment and disposal capacity.

(d) Land Use Decisions. IRWD does not make or affect land use decisions, and its policy is to support land use decisions made by the applicable agencies with jurisdiction in such matters. In keeping with such policy, it is the intent of IRWD as the consolidated successor district to support local land use decisions, including the Silverado-Modjeska Specific Plan, within the former SCWD service area.

(e) Community Support. The Consolidated District and management advisory committee shall seek and consider opportunities to support and participate in water-related community projects and programs in the former SCWD service area.

(f) Consolidation Effective Date. The parties shall request that July 1, 2006 be established as the effective date of the consolidation.

(g) California Environmental Quality Act (CEQA). The parties agree that IRWD shall be the lead agency for purposes of compliance with or determination of exemption from CEQA with respect to the consolidation, and that SCWD shall be a responsible agency for such purpose.

Section 8. Disclosure.

(a) Material Events. It is the intent of the parties that any material litigation (pending or threatened), regulatory action (pending or threatened), liability, unplanned expenditure, defect in title to real property, loss, contingency, or similar item materially affecting the financial or operating condition of either party shall be disclosed to the other party. It is the further intent of the parties to operate only in the ordinary course of business pending the consolidation.

(b) Notice of Unbudgeted Expenditures. From the effective date of this Agreement until the effective date of the consolidation, each party shall give the other reasonable advance notice of any expenditure greater than \$100,000 approved or made by such party, except to the extent the expenditure is identified in an adopted budget or budget amendment, a copy of which has previously been provided to the other party.

(c) Representations. Each party represents that reports and financial statements submitted by such party to the other party shall be accurate in all material respects and shall fairly and accurately represent the financial and operating condition of the submitting party as of their respective dates, and further represents that it shall promptly disclose any material adverse change in its financial or operating condition since the respective dates of such reports and statements. Each party represents that it has good title to its assets except as disclosed to the other party. Each party represents and agrees that it shall promptly disclose to the other party (i) any material damage to the facilities or property of the disclosing party for which the disclosing party will not receive insurance proceeds sufficient to completely rebuild or restore the damaged facilities or property; (ii) any material litigation which is pending or is hereafter filed or threatened against such party, except to the extent such litigation or threatened litigation is identified in financial statements provided to the other party; and (iii) any regulatory action which is pending or is hereafter filed or threatened against such party and which may materially affect such party's ability to operate under a permit.

Section 9. Counterparts. This Agreement may be executed in one or more counterparts. Each will be deemed an original and all, taken together, will constitute one and the same instrument.

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///
///
///

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

SANTIAGO COUNTY WATER DISTRICT

By: _____

By: _____

IRVINE RANCH WATER DISTRICT

By: _____

By: _____

EXHIBIT "B"

POSTED

JAN 11 2006

Exempt per Gov't Code 6103

TOM DALY, CLERK-RECORDER
By [Signature] DEPUTY

IRWD File No. 11031

RETURN TO:

Gregory K. Herr, Planning and Resources Specialist
Irvine Ranch Water District
P.O. Box 57000
Irvine, CA 92619-7000

FILED

NOTICE OF EXEMPTION
(State Guidelines §15062)

JAN 11 2006

County Clerk's Filing Stamp

TOM DALY, CLERK-RECORDER

By [Signature] DEPUTY

TO: County Clerk
County of Orange
700 Civic Center Drive West
Box 838
Santa Ana, CA 92701

FROM: Irvine Ranch Water District (Applicant/Lead Agency)
P.O. Box 57000
Irvine, CA 92619-7000

Project No.: 11031

Project Name: Consolidation of Irvine Ranch Water District and
Santiago County Water District

Project Location (specific): See attached Location Map for districts.

Project Location: (City/ies) Irvine, portions of Tustin, Santa Ana, Foothill Ranch, Lake
Forest, Newport Beach, and unincorporated Orange County (County) Orange

Description of Nature, Purpose and Beneficiaries of Project:

Consolidation of Santiago County Water District (SCWD) and Irvine Ranch Water District (IRWD) and designation of IRWD as the consolidated successor district. The Project also includes the concurrent annexation of the territory of SCWD's Improvement District No. 1 to IRWD's Improvement District Nos. 153 and 253, or in the alternative, formation of IRWD Improvement District Nos. 153 and 253 as two separate and coterminous improvement districts comprising the territory of SCWD's Improvement District No.1. The project consolidates the existing service territories of IRWD and SCWD; IRWD as the consolidated successor district will assume and continue the same service that was provided by SCWD, and therefore, no change in previously exercised powers will take place. The beneficiaries are the customers of both Santiago County Water District and Irvine Ranch Water District.

Recorded in Official Records, Orange County
Tom Daly, Clerk-Recorder

 NO FEE

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FILED

Name of Public Agency Approving Project:

JAN 11 2006

Irvine Ranch Water District (IRWD)

By TOM DALY, CLERK-RECORDER DEPUTY

Name of Person or Agency Carrying Out Project:

Irvine Ranch Water District

Exempt Status: (check one)

POSTED

JAN 11 2006

- ☐ Ministerial (State Guidelines §15268)
☐ Declared Emergency (State Guidelines §15269(a))
☐ Emergency Project (State Guidelines §15269(b) or (c))
☐ Feasibility or Planning Study (State Guidelines §15262)
☒ X Categorical Exemption (State Guidelines §15320 (b))

By TOM DALY, CLERK-RECORDER DEPUTY

Class 20—changes in the organization of local governmental agencies not changing the geographical area in which previously existing powers are exercised (State Guidelines 15320).

Reasons why project is exempt:

- ☐ Pipeline project less than one mile in length in public right-of-way, involving no surface facilities (Pub. Res. Code §21080.21)
- ☐ Establishment or Modification of Rates or Charges (State Guidelines Section §15273). The Board of Directors of Irvine Ranch Water District has found that the purpose is one of the following:
- ☐ (a) meet operating expenses, including employee wage rates and fringe benefits
- ☐ (b) purchase or lease supplies, equipment or materials
- ☐ (c) meet financial reserve needs and requirements
- ☐ (d) obtain funds for capital projects necessary to maintain service within existing service areas
- (explanation is required for findings (a) - (d))

The project has been determined to have the exempt status indicated above for the following reasons: Irvine Ranch Water District as consolidated successor district will

assume and continue the same service that was provided by Santiago County Water District, and therefore, no change in the area of previously exercised powers will take place.

FILED

JAN 11 2006

Contact Person: Gregory Herr, Planning and Resources Specialist
Area Code 949 Phone 453-5865

TOM DALY, CLERK-RECORDER

DEPUTY

If filed by applicant (and applicant is other than Irvine Ranch Water District):

1. Attach certified document of exemption finding.
2. Has a notice of exemption been filed by the public agency approving the project:
YES _____ NO _____

Submission of this form is optional. Local agencies may file this form with the county clerk pursuant to Public Resources Code Section 21152(b). The filing of the notice starts a 35-day statute of limitations on court challenges to the approval of the project under Public Resources Code Section 21167(d). Failure to file the notice results in the statute of limitations being extended to 180 days.

Gregory Herr
Staff Member Responsible for Preparation

POSTED

JAN 11 2006

TOM DALY, CLERK-RECORDER

By

DEPUTY

Jessie Bonkowski
District Secretary

1/9/06
Date

FILED

JAN 11 2006

TOM DALY, CLERK-RECORDER

By

[Signature]

DEPUTY

POSTED

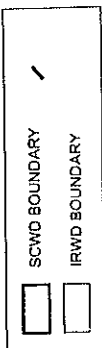
JAN 11 2006

TOM DALY, CLERK-RECORDER

By

[Signature]

DEPUTY



Existing
SCWD Boundary
(Exhibit A)

SCWD

IRWD

This map was prepared by the County of San Diego Department of Planning and Economic Development, Planning Division, in accordance with the provisions of the California Environmental Quality Act (CEQA), Public Resources Code, and the National Environmental Policy Act (NEPA). The map is intended to provide information for the public and is not a legal document. The map is based on the best available information and is not a guarantee of accuracy. The map is subject to change without notice.

FILED

Existing
IRWD Boundary
(Exhibit B)

JAN 11 2006

TOM DALY, CLERK-RECORDER

By

DEPUTY

IRWD BOUNDARY
SCWD BOUNDARY

POSTED

JAN 11 2006

SCWD

By

TOM DALY, CLERK-RECORDER

DEPUTY

IRWD

Note:
This map was prepared to determine original measurements in
the region of survey. It is not intended to be used as a general
reference map. It is a reference map only for planning, informational,
and general information. It is a reference map only for planning,
informational, and general information. It is a reference map only
for planning, informational, and general information.

FILED

JAN 11 2006

TOM DALY, CLERK-RECORDER

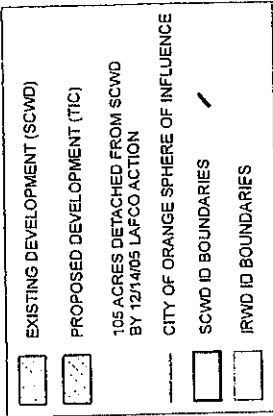
DEPUTY

POSTED

JAN 11 2006

TOM DALY, CLERK-RECORDER

DEPUTY



**Pre-Consolidation
SCWD and IRWD
Improvement Districts
(Exhibit C)**

SCWD

ID 2

ID 1

ID 150/250

IRWD

ID 150

ID 150

ID 150/250

ID 110

Santiago
Canyon

Rd

ID 189/289

ID 186/286

ID 188/288

ID 182/282

ID 186/286

ID 188/288

NOTE: This map was not created by a licensed professional engineer or architect. It is not intended to be used for any purpose other than informational purposes only. It is not intended to be used for any purpose other than informational purposes only. It is not intended to be used for any purpose other than informational purposes only.

FILED

JAN 11 2006

TOM DALY, CLERK-RECORDER

POSTED

JAN 11 2006

TOM DALY, CLERK-RECORDER

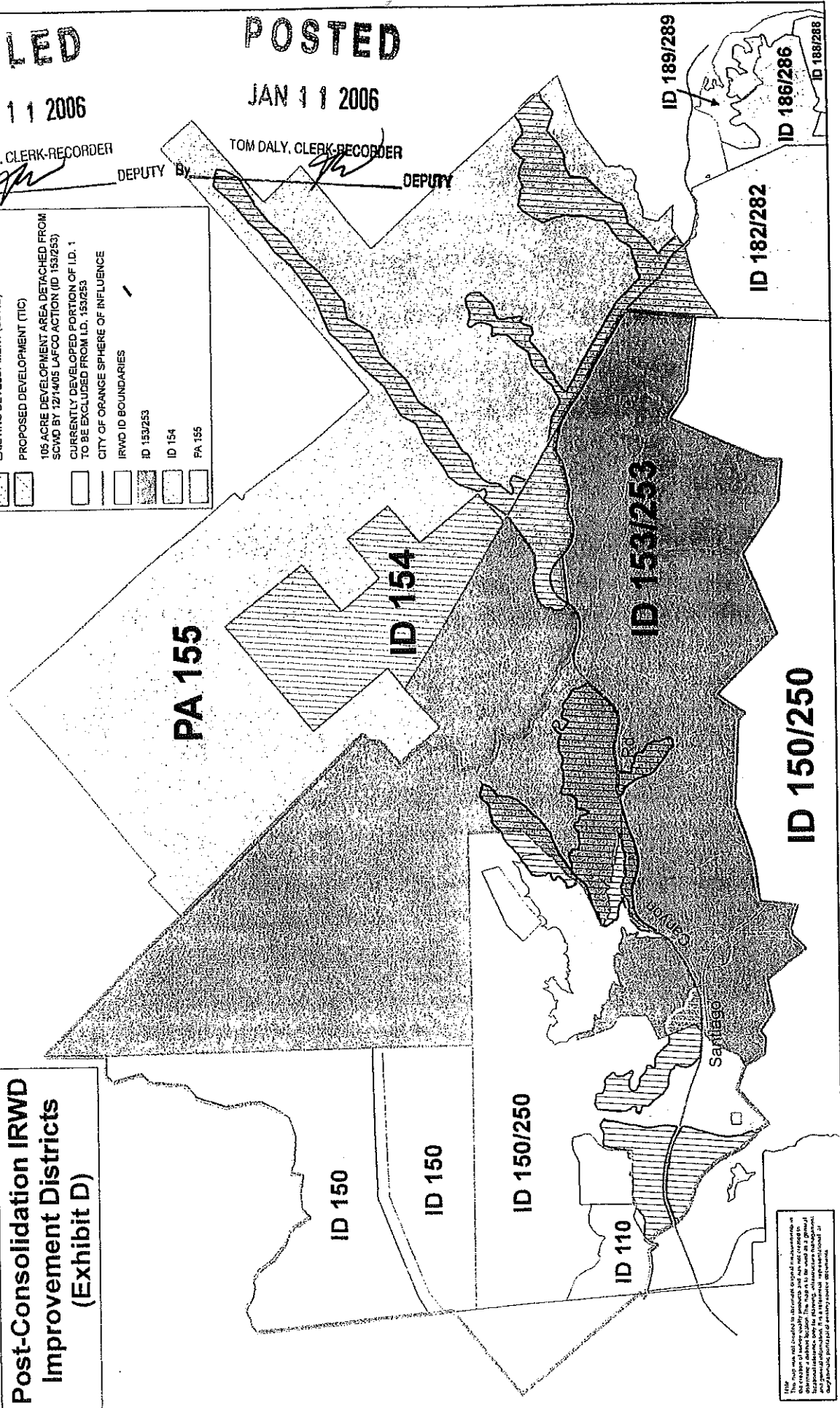
By

DEPUTY

DEPUTY

	EXISTING DEVELOPMENT (SCWD)
	PROPOSED DEVELOPMENT (TIC)
	105 ACRE DEVELOPMENT AREA DETACHED FROM SCWD BY 12/14/05 LAFCO ACTION (ID 153/253)
	CURRENTLY DEVELOPED PORTION OF ID. 1
	TO BE EXCLUDED FROM ID. 153/253
	CITY OF ORANGE SPHERE OF INFLUENCE
	IRWD ID BOUNDARIES
	ID 153/253
	ID 154
	PA 155

Post-Consolidation IRWD
Improvement Districts
(Exhibit D)



This map was not created to accurately represent the boundaries of any district. It is a general representation of the boundaries of the districts shown. It is not intended to be used as a legal document. It is for informational purposes only.

ATTACHMENT D

**STATEMENT OF DETERMINATIONS
IRWD- SCWD REORGANIZATION (RO 06-04)
SPHERE OF INFLUENCE AMENDMENT
FOR THE
CONSOLIDATED IRVINE RANCH WATER DISTRICT
Government Code §56425**

1. The present and planned land uses in the area including agricultural and open-space lands.

The area proposed for consolidation includes the service areas of the Irvine Ranch Water District and Santiago County Water District. Present and planned land uses include a mixture of residential, commercial, industrial, and open space uses.

2. The present and probable need for public facilities and services in the area.

The present need for public services and facilities in the proposed consolidation area is adequately met by the facilities and services of the Irvine Ranch Water District and Santiago County Water District. The demand for public services and facilities in the area is not expected to increase as a result of the consolidation and/or the adoption of a revised sphere of influence for the consolidated Irvine Ranch Water District as successor agency.

3. The present capacity of public facilities and the adequacy of public services which the agency provides or is authorized to provide.

The consolidated Irvine Ranch Water District as successor agency has the capacity and adequate services for both present and future land uses.

4. The existence of any social or economic communities of interest in the area.

The proposed consolidation area includes portions of the cities of Irvine, Lake Forest, Orange, Newport Beach, and Tustin, and unincorporated areas, and has overlapping social and economic communities of interest.

ATTACHMENT E

**STATEMENT OF DETERMINATIONS
IRWD- SCWD REORGANIZATION (RO 06-04)
SPHERE OF INFLUENCE AMENDMENT
FOR THE ORANGE COUNTY SANITATION DISTRICT (OCSD)**

Government Code §56425

1. The present and planned land uses in the area, including residential, park and open-space lands.

The proposed amendment to OCSD's sphere includes entire the Santiago County Water District (SCWD) Improvement District #1 (ID-1) excluding the existing residential areas. The area is included in a proposed consolidation of SCWD with the Irvine Ranch Water District (IRWD). Post consolidation, the area will be referred to as IRWD ID-253 (sewer improvement district). The planned land use for the area has been identified as residential, open space and park uses and will be developed in accordance with the City of Orange East Orange General Plan. The sphere of influence territory is located east of the Foothill/Eastern Transportation Corridors (241/261) and north of the Santiago Canyon Road.

2. The present and probable need for public facilities and services in the area.

The present and probable need for public facilities and services is primarily for the proposed land uses allowed under the East Orange General Plan. The same area is part of a proposed consolidation of the Irvine Ranch Water District and Santiago County Water District service areas. The Irvine Ranch Water District as successor agency and the Orange County Sanitation District will provide for the delivery of municipal services to the area, including water and sewer services. The consolidated Irvine Ranch Water District will provide wholesale and retail water and sewer service to the area. The anticipated annexation of area to the Orange County Sanitation District will allow for wastewater from the area to be treated using IRWD's capacity in OCSD's facilities.

3. The present capacity of public facilities and the adequacy of public services which the agency provides or is authorized to provide.

The amendment to OCSD's sphere of influence is consistent with an anticipated annexation of same area to the District's service territory. OCSD has the capacity and adequate facilities to provide the needed services.

4. The existence of any social or economic communities in the area.

No social or economic communities of interest were noted.

RO 06-04

**RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION OF
ORANGE COUNTY, CALIFORNIA
MAKING DETERMINATIONS AND APPROVING THE
IRVINE RANCH WATER DISTRICT / SANTIAGO COUNTY WATER DISTRICT
REORGANIZATION**

April 12, 2006

On motion of Commissioner _____, duly seconded and carried, the following resolution was adopted:

WHEREAS, the proposed change of reorganization, designated as "Irvine Ranch Water District/Santiago County Water District Reorganization" (RO 06-04), was heretofore filed with and accepted for filing on March 21, 2006, by the Executive Officer of this Local Agency Formation Commission pursuant to Title 5, Division 3, commencing with Section 56000 et seq. of the Government Code; and

WHEREAS, the Executive Officer, pursuant to Government Code Section 56658 set April 12, 2006 as the hearing date of this proposal; and

WHEREAS, the Executive Officer, pursuant to Government Code Section 56665 has reviewed this proposal and prepared a report including her recommendation thereon, and has furnished a copy of this report to each person entitled to a copy; and

WHEREAS, the proposal consists of the following concurrent actions: consolidation of the Irvine Ranch Water District and the Santiago County Water District and establishment of the Irvine Ranch Water District as the successor agency; amendment of the sphere of influence for the Irvine Ranch Water District to include the service territory of the Santiago County Water District as the consolidated district sphere of influence (see Exhibit "A," Statement of Boundary); and amendment of the Orange County Sanitation District's sphere of influence to include the entire SCWD ID No. 1 (IRWD ID No. 253) excluding the existing residential areas; and

ATTACHMENT F

WHEREAS, this Commission on April 12, 2006 considered the proposal and the report of the Executive Officer, and considered the factors determined by the Commission to be relevant to this proposal, including, but not limited to, factors specified in Government Code Section 56668 and 56853; and

WHEREAS, this Commission called for and held a public hearing on the proposal on April 12, 2006, and at the hearing, this Commission heard and received all oral and written protests, objections and evidence which were made, presented or filed, and all persons present were given an opportunity to hear and be heard with respect to this proposal and the report of the Executive Officer; and

WHEREAS, this project is categorically exempt from the California Environmental Quality Act (CEQA) pursuant to §15320 of the state CEQA guidelines; and

WHEREAS, the Local Agency Formation Commission finds the proposal to be in the best interests of the affected area and the total reorganization of local governmental agencies within Orange County.

NOW, THEREFORE, the Local Agency Formation Commission of the County of Orange DOES HEREBY RESOLVE, DETERMINE and ORDER as follows:

Section 1. The Irvine Ranch Water District's sphere of influence, amended to include the entire former Santiago County Water District Service Territory as shown in Exhibit "B," and the Statement of Determinations for the Irvine Ranch Water District's sphere of influence, shown as Exhibit "C," are hereby adopted.

Section 2. The Orange County Sanitation District's sphere of influence, amended to include the entire SCWD ID No. 1 (IRWD ID No. 253) less excluded areas as shown in Exhibit "D," and the Statement of Determinations for the Orange County Sanitation District's sphere of influence, shown as Exhibit "E," are hereby adopted.

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Section 3. The proposed reorganization – i.e., the consolidation of the Irvine Ranch Water District and Santiago County Water District, establishment of the Irvine Ranch Water District as the successor agency, concurrent sphere of influence amendment reflecting the newly consolidated district, and amendment of the Orange County Sanitation District's sphere of influence to include the entire SCWD ID No. 1 (IRWD ID No. 253), less excluded areas – is hereby approved, subject to the following conditions:

- a) The applicant agrees to pay for all County Recorder and State Board of Equalization fees.
- b) The applicant agrees to defend, hold harmless and indemnify LAFCO and/or its agents, officers and employees from any claim, action or proceeding against LAFCO and/or its agents, officers and employees to attack, set aside, void or annul the approval of LAFCO concerning this proposal or any action relating to or arising out of such approval.
- c) The provisions of the "Consolidation Agreement" entered into by and between the Irvine Ranch Water District and Santiago County Water District on January 17, 2006. (Exhibit "F")
- d) Effective upon the date of the consolidation, all of the territory that was within Improvement District No. 1 of SCWD immediately prior to said effective date is hereby annexed to both Improvement District Nos. 153 and 253 of IRWD. The water bonds of Improvement District No. 1 of SCWD (authorized but unissued) shall be the bonds of IRWD on behalf of Improvement District No. 153, and the liability for payment of the principal, interest, and any other amounts which shall become due on account of the water bonds shall be transferred to and continue in effect as a liability of

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the territory within Improvement District No. 153, including the territory comprising the Improvement District upon its formation by the Commission's Order RO-04-16 and the territory annexed by this action. The sewer bonds of Improvement District No. 1 of SCWD (authorized but unissued) shall be the bonds of IRWD on behalf of Improvement District No. 253, and the liability for payment of the principal, interest, and any other amounts which shall become due on account of the sewer bonds shall be transferred to and continue in effect as a liability of the territory within Improvement District No. 253, including the territory comprising the Improvement District upon its formation by the Commission's Order RO-04-16 and the territory annexed by this action. The bonds may be issued and sold by IRWD on behalf of Improvement District Nos. 153 and 253, respectively, in the manner provided for issuance and sale of bonds in Water Code Section 34000 et seq., and taxes, assessments, service charges and rates may be levied or fixed and collected by IRWD in the amount necessary to provide for that payment, in the manner provided in the original authorization and, to the extent not inconsistent therewith, in the manner provided for payment of bonds in Water Code Section 34000 et seq.

- e) Effective upon the date of the consolidation, Improvement District No. 2 of SCWD is hereby renamed "Improvement District No. 154 of Irvine Ranch Water District." Improvement District No. 154 shall be deemed to be an improvement district formed under California Water Code Section 36410 et seq. The bonds of Improvement District No. 2 of SCWD (authorized but unissued) shall be the bonds of IRWD on behalf of Improvement District No. 154, and the liability for payment of the principal, interest, and any other

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amounts which shall become due on account of the bonds shall be transferred to and continue in effect as a liability of the territory within Improvement District No. 154. The bonds may be issued and sold by IRWD on behalf of Improvement District No. 154 in the manner provided for issuance and sale of bonds in Water Code Section 34000 et seq., and taxes, assessments, service charges and rates may be levied or fixed and collected by IRWD in the amount necessary to provide for that payment, in the manner provided in the original authorization and, to the extent not inconsistent therewith, in the manner provided for payment of bonds in Water Code Section 34000 et seq.

f) The effective date shall be July 1, 2006.

Section 4. The subject territory is found to be inhabited, is within the County of Orange, and is assigned the following distinctive short-form designation: "Irvine Ranch Water District/Santiago County Water District Reorganization" (RO 06-04).

Section 5. The Commission authorizes and directs the Executive Officer to conduct protest proceedings pursuant to Government Code Sections 57000 et seq. and set a 21-day protest period.

Section 6. The Executive Officer is hereby authorized and directed to mail copies of this resolution as provided in Section 56882 of the Government Code.

AYES: _____

NOES: _____

STATE OF CALIFORNIA)

) SS.

COUNTY OF ORANGE)

ATTACHMENT F

I, ROBERT BOUER, Chairperson of the Local Agency Formation Commission of Orange County, California, hereby certify that the above and foregoing resolution was duly and regularly adopted by said Commission at a regular meeting thereof, held on the 12th day of April, 2006.

IN WITNESS WHEREOF, I have hereunto set my hand this 12th day of April, 2006.

ROBERT BOUER
Chairperson of the Orange County
Local Agency Formation Commission

By: _____
Robert Bouer

ATTACHMENT G

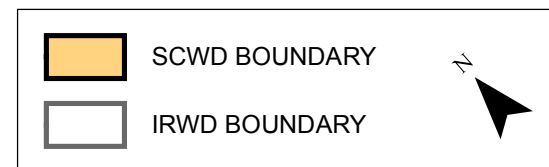
STATEMENT OF BOUNDARY

REORGANIZATION RO 06-04

Consolidation of Santiago County Water District with Irvine Ranch Water District

The reorganized district comprised of the Consolidation of Santiago County Water District and Irvine Ranch Water District will bear the name Irvine Ranch Water District.

**Existing
SCWD Boundary
(Exhibit A)**



SCWD

IRWD

Note:
This map was not created to document original measurements in the creation of survey quality products and was not created to determine a definite location. This map is to be used as a general locational reference only for planning, infrastructure management, and general information. It is a referential, representational, or diagrammatic portrayal of existing source documents.

**Existing
IRWD Boundary
(Exhibit B)**

IRWD BOUNDARY

SCWD BOUNDARY


N

SCWD


IRWD

Note:
This map was not created to document original measurements in the creation of survey quality products and was not created to determine a definite location. This map is to be used as a general locational reference only for planning, infrastructure management, and general information. It is a referential, representational, or diagrammatic portrayal of existing source documents.


**Pre-Consolidation
SCWD and IRWD
Improvement Districts
(Exhibit C)**




EXISTING DEVELOPMENT (SCWD)




PROPOSED DEVELOPMENT (TIC)




CURRENTLY DEVELOPED PORTION OF I.D. 1
TO BE EXCLUDED FROM I.D. 153/253




105 ACRE DEVELOPMENT AREA DETACHED FROM SCWD
BY 12/14/05 LAFCO ACTION (ID 153/253 FORMATION)



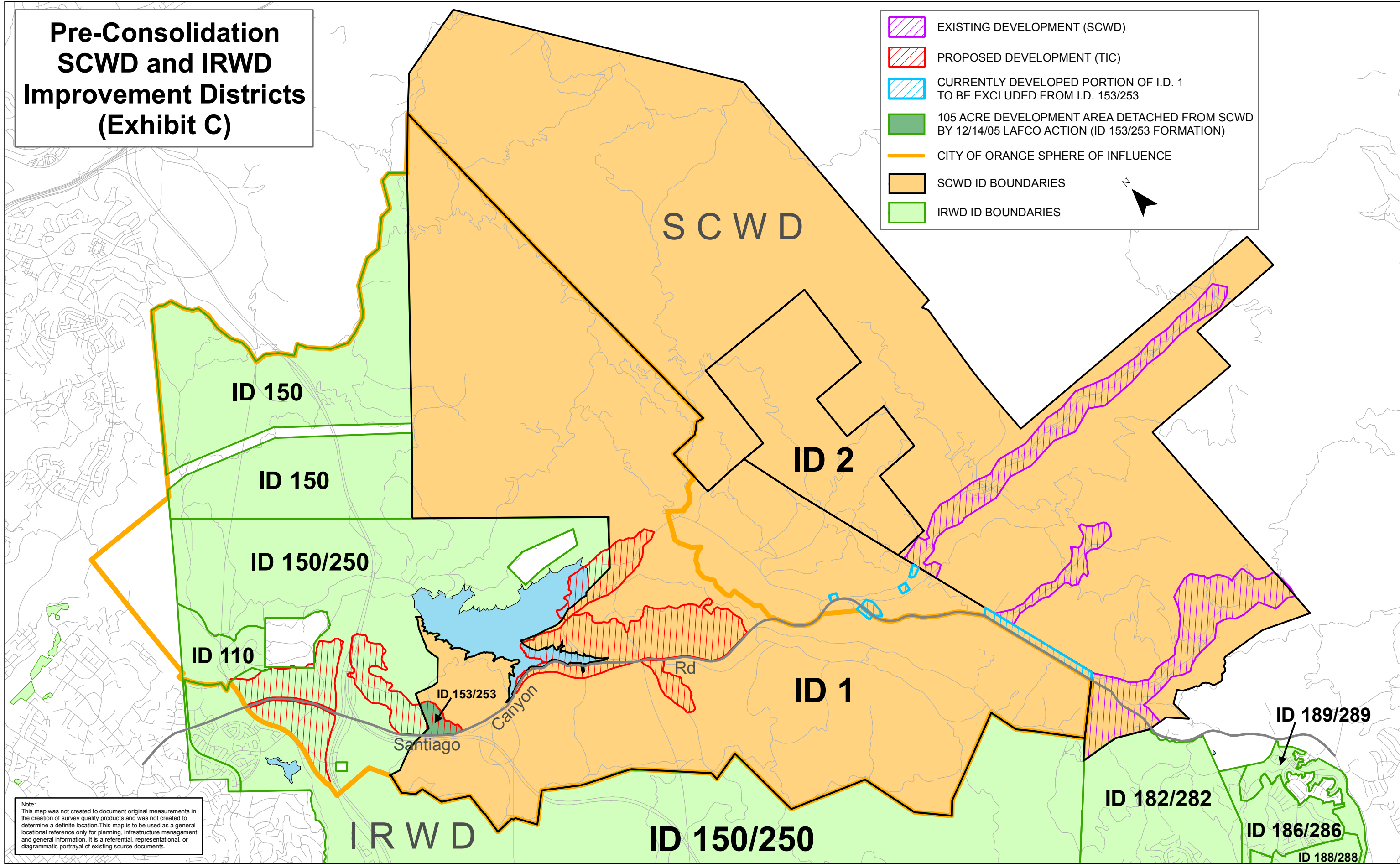
CITY OF ORANGE SPHERE OF INFLUENCE



SCWD ID BOUNDARIES

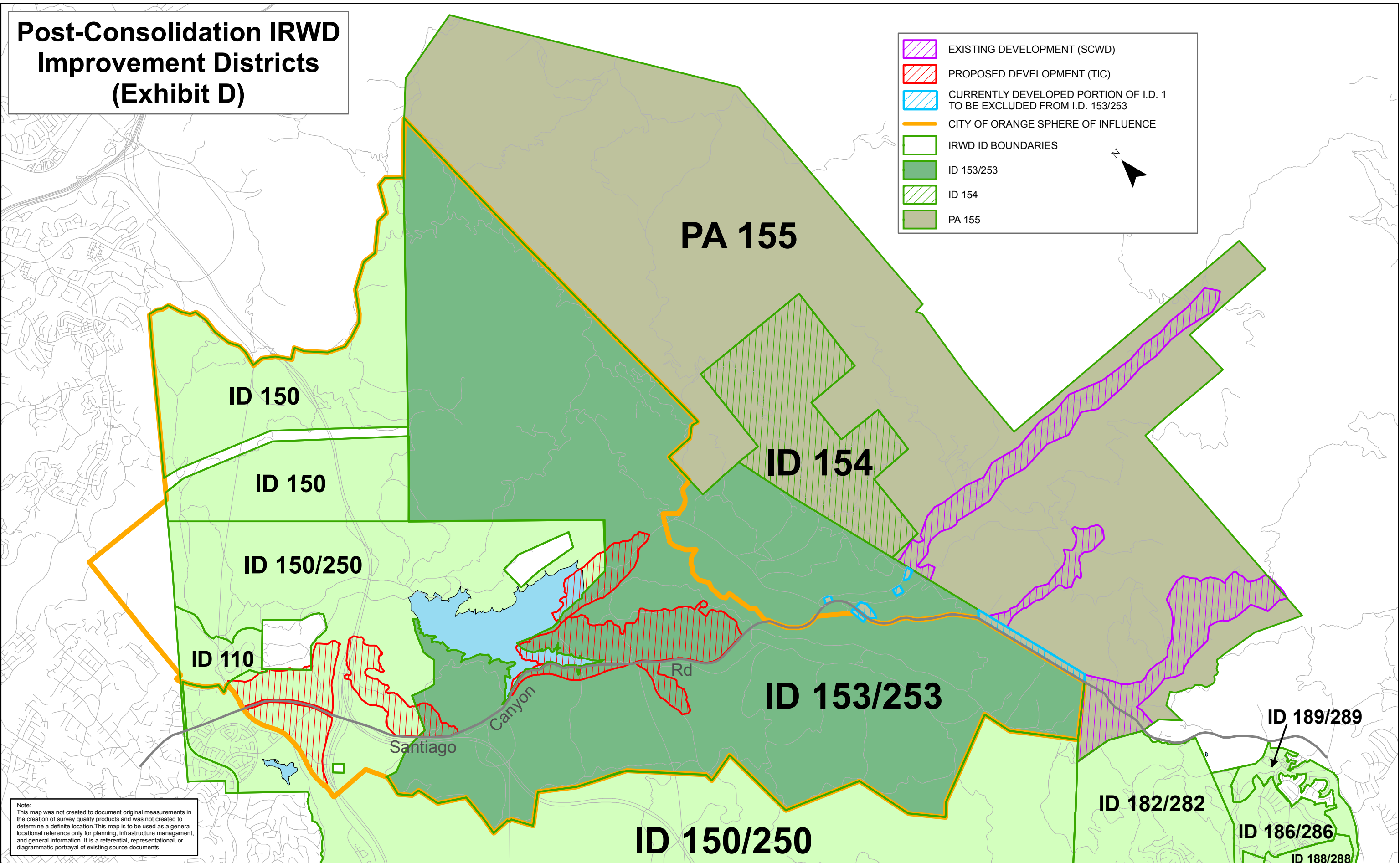


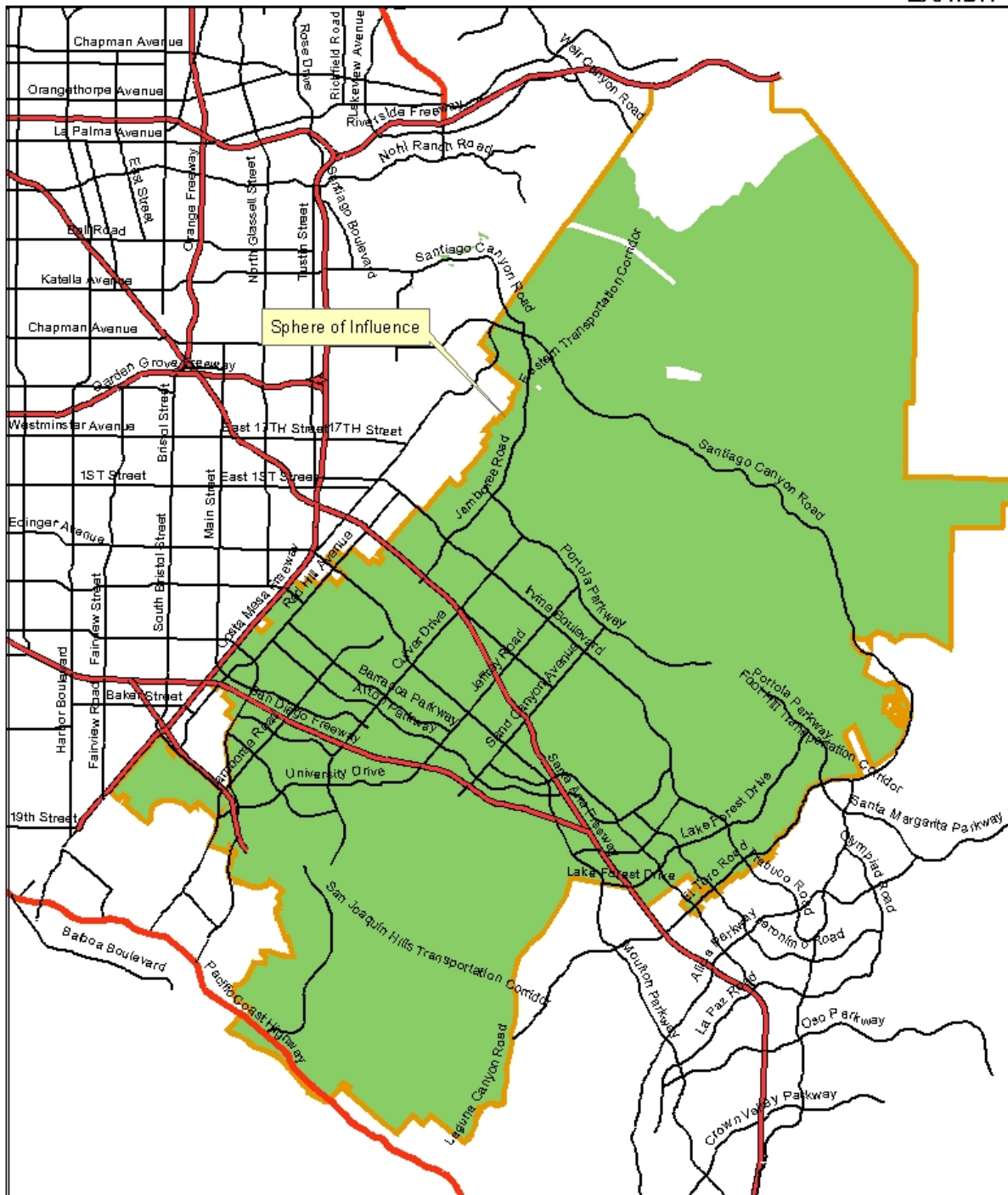
IRWD ID BOUNDARIES



Note:
This map was not created to document original measurements in the creation of survey quality products and was not created to determine a definite location. This map is to be used as a general locational reference only for planning, infrastructure management, and general information. It is a referential, representational, or diagrammatic portrayal of existing source documents.

Post-Consolidation IRWD Improvement Districts (Exhibit D)





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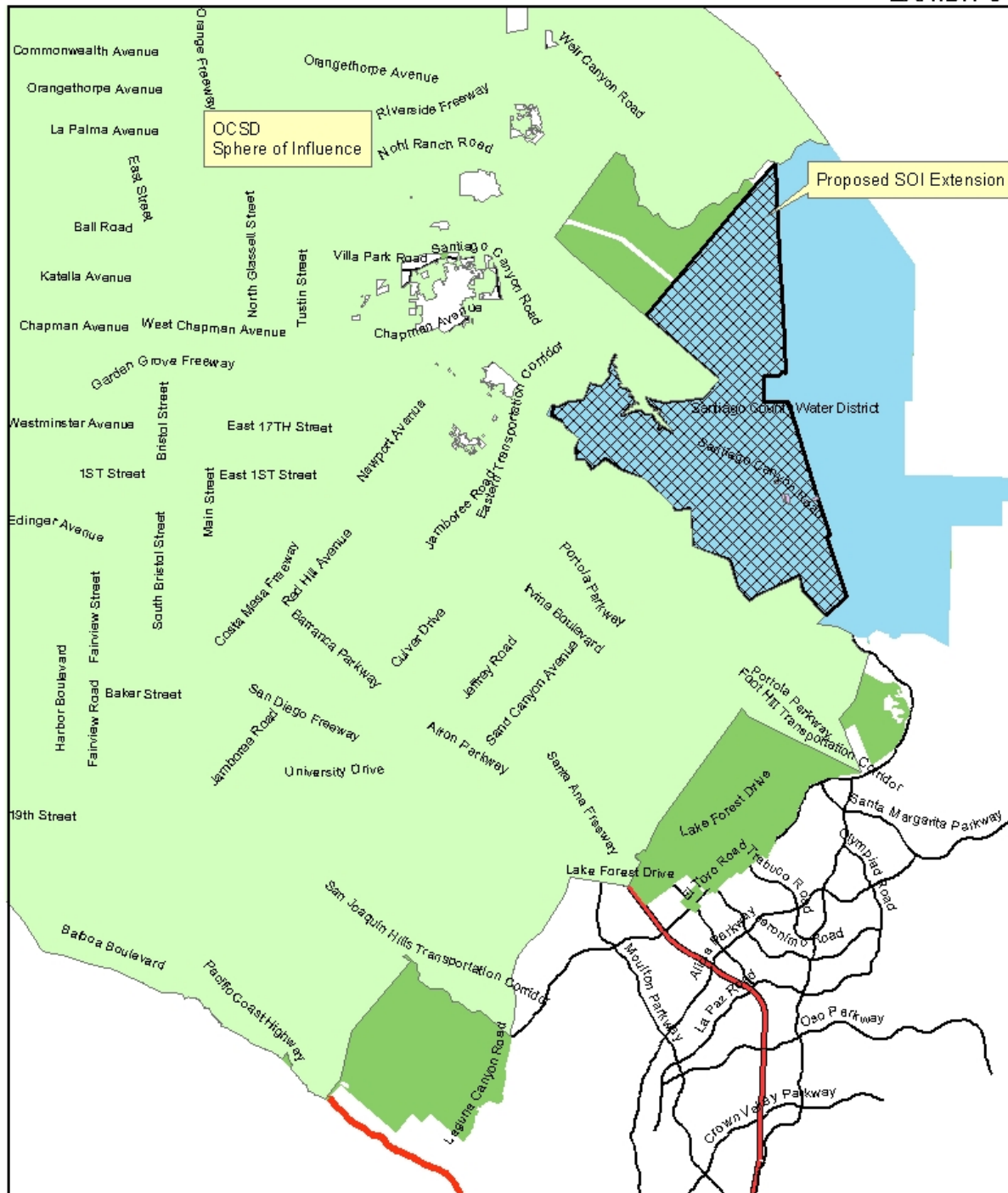


Legend	
	Sphere Boundary
	District Boundary

Proposed Consolidated Irvine Ranch Water District Sphere of Influence Map

03/31/06

SOI Originally Adopted: 05/26/76
Last Reviewed: 11/09/05



Proposed Orange County Sanitation District Sphere of Influence Map

04/04/06

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